

**Eaton Intermediate School District
Charlotte, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

Eaton Intermediate School District

Charlotte, Michigan

BOARD OF EDUCATION

June 30, 2007

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Eaton Intermediate School District

TABLE OF CONTENTS

June 30, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xii
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Fiduciary Funds:	
Statement of Fiduciary Net Assets	9
Statement of Changes in Fiduciary Net Assets	10
Notes to Financial Statements	11-24
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	25
Budgetary Comparison Schedule - Special Education Fund	26-27
Budgetary Comparison Schedule - Vocational Education Fund	28
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	29-30
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	31-32
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	33-34

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Eaton Intermediate School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2007 on our consideration of Eaton Intermediate School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United State of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Eaton Intermediate School District's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 2, 2007



EATON INTERMEDIATE SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2007

As management of Eaton Intermediate School District, we offer readers of the Eaton Intermediate School District's financial statements this narrative overview and analysis of the financial activities of Eaton Intermediate School District for the fiscal year ended June 30, 2007. All amounts are expressed in actual dollars.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the District's revenues and expenditures by program for the General Fund, Special Education Fund, Vocational Education Fund, Special Revenue Funds, Debt Service Fund, and Capital Projects Fund.

Financial Highlights

Our financial statements provide these insights into the result of this year's operations.

The overall condition of all funds and governmental activities have been strong in the past, but have been somewhat affected by the downturn in the state economy during the past two years. However, all goals related to the District's financial activities have been met and, with controlled spending and State support, resources for the 2007-08 fiscal year are available.

The assets of Eaton Intermediate School District exceeded its liabilities at the close of the most recent fiscal year by \$4,910,429. Of this amount, \$3,050,869 (unrestricted net assets) may be used to meet the District's ongoing obligations to taxpayers, students, and creditors.

The District's total net assets increased by \$477,392, primarily due to an increase in property taxes received by the District.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,905,385, an increase of \$624,407. Of the total fund balance, \$2,460,675 is available for spending at the District's discretion (unreserved, undesignated fund balance).

As of June 30, 2007, the aggregated fund balance for the District's main operating funds (General Fund, Special Education Fund and Vocational Education Fund) was \$3,015,548.

USING THE ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the Eaton Intermediate School District's financial statements.

The Eaton Intermediate School District's financial statements are comprised of three components:

- 1) government-wide financial statements
- 2) fund financial statements, and
- 3) notes to the financial statements.

This report also contains required and other supplementary information in addition to the financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Eaton Intermediate School District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Eaton Intermediate School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Eaton Intermediate School District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Both of the government-wide financial statements distinguish functions of the Eaton Intermediate School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Eaton Intermediate School District include instruction, support services, community services, and transfers to local districts.

The government-wide financial statements can be found on pages 1-2 of this report. The reconciliations to the fund level financial statements are presented on pages 5 and 8.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Eaton Intermediate School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Eaton Intermediate School District can be divided in two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Eaton Intermediate School District maintains three individual major governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Education Fund, Vocational Fund which are all considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Eaton Intermediate School District adopts annual appropriated budgets for its governmental funds. A budgetary comparison schedule has been provided for the General Fund, Special Education Fund and Vocational Fund to demonstrate compliance with their budgets. The basic governmental fund financial statements can be found on pages 3-4 and 6-7 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Eaton Intermediate School District's own programs. Fiduciary fund information is reported on pages 9-10.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning budgetary information for the District's major funds. Required supplementary information can be found on pages 25-28 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information and are considered other supplementary information. Combining and individual fund statements can be found on pages 29-32 of this report.

Our auditors have provided assurance in their independent auditor's report, located immediately preceding this Management Discussion and Analysis, that the Financial Statements are fairly stated. The auditors provide varying degrees of assurance regarding the Required Supplementary Information and the Other Supplementary Information described earlier. A user of this report should read the Independent Auditor's Report carefully to ascertain the level of assurance being provided for each of the other parts in the Financial Section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's net assets were \$4,910,429 at June 30, 2007. Of this amount, \$3,050,869 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

<u>TABLE 1 - NET ASSETS</u>		
Governmental Activities (June 30, 2007)		
	<u>2006/07</u>	<u>2005/06</u>
Current Assets	\$7,908,830	\$6,131,899
Capital Assets	3,935,920	3,989,028
Total Assets	11,844,750	10,120,927
Current Liabilities	4,285,286	3,292,852
Noncurrent Liabilities	2,649,035	2,395,038
Total Liabilities	6,934,321	5,687,890
Invested in Capital Assets - Net of Debt	1,859,560	1,807,668
Unrestricted	3,050,869	2,625,369
Total Net Assets	\$4,910,429	\$4,433,037

The \$3,050,869 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we liquidated all our assets to cash and paid off all of our bills today, including all of our non-capital liabilities (compensated absences for example), there would be \$3,050,869 remaining.

Eaton ISD Management's Discussion and Analysis

Eaton ISD continues to provide Special Ed transportation services to its constituent districts, a service started in 2004/05. The cost for this service in 2006/07 was approximately \$2,500,000 representing a 5% increase due to increases in student ridership and fuel costs. Costs for 2005/06 services were approximately \$2,400,000. The district also received approximately \$400,000 in State Aid reimbursement related to the prior year's costs. This reimbursement was passed on to the local districts, making the total cost in 2005/06 roughly \$2,800,000. The district continues to provide the majority of itinerant services to constituent districts.

At the end of the current fiscal year, the Eaton Intermediate School District is able to report positive balances in all categories of net assets, both for the District as a whole, as well as for its separate governmental activities. The same situation was true for the prior fiscal year.

The results of this year's operations for the District as a whole are reported in the Statement of Activities on Page 2. Table 2 takes the information from that Statement and slightly rearranges them so you can see our total revenues for the year.

Net governmental activities increased the District's net assets by \$477,392. Key elements are as follows:

<u>TABLE 2 - CHANGES IN NET ASSETS</u>		
Governmental Activities		
Year Ended June 30, 2007		
	<u>2006/07</u>	<u>2005/06</u>
<u>Revenues:</u>		
Charges for Services	\$ 3,763,967	\$ 2,800,877
Operative Grants and Contributions	7,871,662	7,811,129
Capital Grants	56,119	95,527
<u>General Revenues:</u>		
Property Taxes	9,667,073	8,966,863
Grants and State Aid	5,780,248	6,135,207
Other	363,702	312,577
Total Revenues	27,502,771	26,122,180
<u>Functions/Program Expenses:</u>		
Instruction	6,547,963	5,453,860
Supporting Services	15,518,732	15,425,453
Community Services	1,861,545	1,654,662
Transfers for Local Districts and Other	2,787,791	2,586,434
Interest in Long-Term Obligations	96,137	100,860
Depreciation	213,211	183,380
Total Functions/Program Expenses	27,025,379	25,404,649
INCREASE IN NET ASSETS	\$ 477,392	\$ 717,531

Governmental Activities

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$27,025,379. However, the amount that our taxpayers ultimately financed for these activities through District taxes and other revenues was only \$15,333,631. \$3,763,967 was paid by those who benefited directly from the programs. \$7,871,662 was paid by governments and organizations who subsidized certain programs with grants and contributions and lastly by capital grants of \$56,119.

In the Table 3, we have presented the cost of each of the District's largest functions and depreciation, as well as each function's net cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the taxpayers of the District by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

TABLE 3 - SERVICE COSTS

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2006/07</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2005/06</u>
Instruction	\$ 6,547,963	\$ 5,453,860	\$ 3,926,895	\$ 3,435,839
Support Services	15,518,732	15,425,453	9,182,405	9,026,944
Community Services	1,861,545	1,654,662	(219,395)	(106,324)
Transfers to Local Districts and other	2,787,791	2,586,434	2,134,378	2,056,417
Interest on Long-Term Obligations	96,137	100,860	96,137	100,860
Depreciation - Unallocated	213,211	183,380	213,211	183,380
Total Governmental Activities	27,025,379	\$25,404,649	15,333,631	\$14,697,116

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law. The most significant budgeted funds are the General Fund, Special Education Fund, and the Vocational Education Fund.

During the fiscal year ended June 30, 2007, the District amended the budget of these major governmental funds two times.

Budget Analysis By Fund

General Fund - Fund Level Data

The General Fund modified accrual basis actual revenue was \$4,068,465. That amount is more than original budget estimates of \$3,475,497 and less than final amended budget of \$4,142,824.

Eaton ISD Management's Discussion and Analysis

The variance between the original budget and final budget primarily resulted from the following:

- 1) Increase in estimated property tax revenue, local grant funds, and LEA reimbursement.
- 2) Increases in State and Federal grant funding not included in adopted budget planning.
- 3) Increases in substitute teacher costs reimbursements by constituent districts.
- 4) Revenue from new fingerprinting service not included in original budget.
- 5) Increase in investment earnings.

The actual expenditures and other financing uses of the General Fund were \$3,987,701 which is more than the original budget estimates of \$3,459,891 and less than the final budget of \$4,079,369. The variance between the final budget and the original budget resulted from the following:

- 1) Grant expenses corresponding to increases in grant revenues.
- 2) Increased substitute teacher costs (reimbursed by constituent districts).
- 3) Fingerprinting costs associated with new requirements and service.
- 4) Expenses associated with student progress systems, training, and new curriculum provided by to constituent district students.

General Fund had total revenues of \$4,068,465 and total expenditures of \$3,987,701 with an excess of \$80,764. The excess amount from annual operations makes the final fund balance amount in the General Fund \$1,017,267.

Special Education Fund - Fund Level Data

The Special Education Fund actual revenue was \$18,113,606. That amount is above the original budget estimate of \$17,703,431 and below the final amended budget estimate of \$18,272,999. Variances between the original budget and final budget as follows:

- 1) Property taxes were greater than original estimate.
- 2) Prior year special education transportation adjustment was greater than original estimate.
- 3) Investment income greater than original estimate.

The actual expenditures and other financing uses of the Special Education Fund were \$18,021,179 is less than the original budget of \$18,039,961 and the final amended budget of \$18,369,675. The variance between the original budget and amended budget resulted from a reduction in grant expenses corresponding to the reduction in Federal grant funding, and realized savings from administrative reductions.

Special Education Fund had total revenues of \$18,113,606 and total expenditures of \$18,021,179 with an ending fund balance of \$1,326,969.

Vocational Education Fund - Fund Level Data

The Vocational Education Fund actual revenue was \$5,343,846. That amount is less than the original budget estimate of \$5,668,407 and more than the final amended budget of \$5,301,421. Variances between the actual revenues, the original budget and final budget resulted as follows:

- 1) Property taxes increased over original budget.
- 2) Original budget included the sale of current year spec house that didn't materialize.
- 3) Reductions in state and federal funding.

The actual expenditures and other financing uses of the Vocational Education Fund were \$5,235,227, which is below the original budget of \$5,657,000 and slightly below the final amended budget of \$5,300,074. The variance between the original budget and the amended budget resulted as follows:

- 1) Spec house expenses deferred to match eventual sale. Two houses are included in inventory at June 30, 2007.
- 2) Reduction in grant expenses to match reduction in grant revenues.
- 3) Reduction in staffing costs.

Vocational Education Fund had total revenues of \$5,343,846 and total expenditures of \$5,235,227 leaving an excess of \$108,619 and an ending fund balance of \$671,312.

TOTAL ISD REVENUES - FUND LEVEL

The total revenues and other financing sources for all funds of the District on the modified accrual basis were \$28,099,037.

Program specific revenues in the form of charges for services, sales and grants, and contributions accounted for 42% of the total revenues and other financing sources for all funds.

GOVERNMENTAL FUND EXPENDITURES

In reviewing the following chart, you will see that Special Education comprises 66% of all expenditures within the governmental funds of the District. Total governmental fund expenditures and other financing uses amounted to \$27,474,630. Governmental funds had a net increase of \$624,407 in fund balance. The ending fund balance for all governmental funds was \$3,905,385 which represents approximately 14% of 2006/07 expenditures. This fund balance will be used to fund future operations, capital improvements, and for maintenance of adequate cash flow to reduce the amount of borrowing.

TABLE 4 - GOVERNMENTAL FUND EXPENDITURES

	<u>June 30, 2007</u>	<u>% of Total</u>	<u>June 30, 2006</u>	<u>% of Total</u>
General Fund	\$ 3,987,701	14%	\$ 3,537,442	14%
Special Education Fund	18,021,179	66%	17,243,770	67%
Vocational Education Fund	5,235,227	19%	4,549,106	18%
Nonmajor Governmental Funds	230,523	1%	267,985	1%
Total	\$27,474,630	100%	\$25,598,303	100%

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal year 2007, the District had \$6,199,215 invested in land and buildings, furniture and equipment, and vehicles. The accumulated depreciation amount is \$2,263,295. We currently have a net book value of \$3,935,920. Total additions of capital assets for the year were \$160,103. The majority of changes were computer and equipment purchases.

TABLE 5 - CAPITAL ASSETS AT YEAR END**Governmental Activities
(Net of Depreciation)**

	<u>2006/07</u>	<u>2005/06</u>
Land	\$ 23,500	\$ 23,500
Building and Improvements	3,534,556	3,624,143
Furniture and Equipment	352,618	322,527
Vehicles	25,246	18,858
TOTAL	\$3,935,920	\$3,989,028

Long-Term Debt

At June 30, 2007, the District had \$1,745,000 in outstanding bonds for the 1999 additions and improvements to the Packard Highway facility. There is also \$331,360 of Durant Resolution Bonds. The annual payment for the Durant bonds is made by the State of Michigan. According to the legislation enacted, if the State fails to appropriate the money to fund the bond payments, the District is under no obligation for the payment. During 2006/07 fiscal year, the District issued \$250,000 of 2007 Energy Conservation Bonds.

TABLE 6 - OUTSTANDING DEBT AT YEAR END**Governmental Activities**

	<u>2006/07</u>	<u>2005/06</u>
General Obligation Bonds	\$2,326,360	\$2,181,360

The District also has vacation and sick leave entitlements as long-term liabilities accumulated at June 30, 2007 in the amount of \$532,807 collectively.

State statutes limit the amount of general obligation debt that a District may issue. The current debt limitation for the Eaton Intermediate School District is significantly greater than the outstanding debt of the District.

Additional information on the District's long-term debt can be found in Note D on pages 18-20 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan remains sluggish. General Fund Sec. 81 categorical funding remains below previous year's funding levels, impacting General, Special Ed and Vocational funds. Federal support for Special Education is not expected to increase while the need for special education services continues to increase.

On the positive side, bargaining agreements covering the District's two collective bargaining groups include modest salary increases as well as insurance co-payments based on a fixed percentage. The agreements expire in 2008 but due to goodwill between administration and the association leadership, the District expects to settle both contracts favorable to the both parties. Though funding from the State is still uncertain for 2007/08, the District will be able to continue to provide excellent services to students and constituent districts.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Eaton Intermediate School District's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Eaton Intermediate School District

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,715,462
Accounts receivable	54,288
Taxes receivable	5,256
Due from other governmental units	3,556,712
Prepays	38
Inventories	<u>577,074</u>
TOTAL CURRENT ASSETS	7,908,830
Noncurrent assets	
Capital assets not being depreciated	23,500
Capital assets, net of accumulated depreciation	<u>3,912,420</u>
TOTAL NONCURRENT ASSETS	<u>3,935,920</u>
TOTAL ASSETS	11,844,750
LIABILITIES	
Current liabilities	
Accounts payable	2,763,670
Accrued payroll	713,178
Accrued interest payable	14,302
Other accrued liabilities	373,212
Unearned revenue	153,385
Accrued compensated absences	137,539
Current portion of long-term debt	<u>130,000</u>
TOTAL CURRENT LIABILITIES	4,285,286
Noncurrent liabilities	
Noncurrent portion of accrued interest payable	57,407
Accrued compensated absences	395,268
Noncurrent portion of long-term debt	<u>2,196,360</u>
TOTAL NONCURRENT LIABILITIES	<u>2,649,035</u>
TOTAL LIABILITIES	6,934,321
NET ASSETS	
Invested in capital assets, net of related debt	1,859,560
Unrestricted	<u>3,050,869</u>
TOTAL NET ASSETS	<u><u>\$ 4,910,429</u></u>

See accompanying notes to financial statements.

Eaton Intermediate School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Programs/Functions	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities
Instruction	\$ 6,547,963	\$ 2,324,821	\$ 240,128	\$ 56,119	\$ (3,926,895)
Supporting services	15,518,732	1,418,039	4,918,288	-	(9,182,405)
Community services	1,861,545	21,107	2,059,833	-	219,395
Payments to other districts and other	2,787,791	-	653,413	-	(2,134,378)
Interest on long-term debt	96,137	-	-	-	(96,137)
Unallocated depreciation	213,211	-	-	-	(213,211)
TOTAL EXPENSES	\$ 27,025,379	\$ 3,763,967	\$ 7,871,662	\$ 56,119	(15,333,631)
General revenues					
Property taxes					9,667,073
State school aid - unrestricted					5,780,248
Investment earnings					250,661
Miscellaneous					113,041
Total general revenues					15,811,023
Change in net assets					477,392
Net assets, beginning of year					4,433,037
Net assets, end of year					\$ 4,910,429

See accompanying notes to financial statements.

Eaton Intermediate School District

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

	General	Special Education	Vocational Education
ASSETS			
Cash and cash equivalents	\$ 758,995	\$ 1,366,728	\$ 697,110
Accounts receivable	49,310	-	4,978
Taxes receivable	250	3,755	1,251
Due from other governmental units	515,091	2,725,111	316,510
Prepays	-	38	-
Inventories	42,520	-	534,554
TOTAL ASSETS	<u>\$ 1,366,166</u>	<u>\$ 4,095,632</u>	<u>\$ 1,554,403</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 27,298	\$ 1,956,411	\$ 777,169
Accrued payroll	61,238	572,663	79,277
Other accrued liabilities	107,323	239,244	26,645
Deferred revenue	153,040	345	-
TOTAL LIABILITIES	348,899	2,768,663	883,091
FUND BALANCES			
Reserved for			
Inventories	42,520	-	534,554
Prepays	-	38	-
Debt service	-	-	-
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in			
General fund	974,747	-	-
Special revenue funds	-	1,326,931	136,758
TOTAL FUND BALANCES	<u>1,017,267</u>	<u>1,326,969</u>	<u>671,312</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,366,166</u>	<u>\$ 4,095,632</u>	<u>\$ 1,554,403</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 892,629	\$ 3,715,462
-	54,288
-	5,256
-	3,556,712
-	38
-	577,074
<u>\$ 892,629</u>	<u>\$ 7,908,830</u>
\$ 2,792	\$ 2,763,670
-	713,178
-	373,212
-	153,385
<u>2,792</u>	<u>4,003,445</u>
-	577,074
-	38
9,510	9,510
858,088	858,088
-	974,747
22,239	1,485,928
<u>889,837</u>	<u>3,905,385</u>
<u>\$ 892,629</u>	<u>\$ 7,908,830</u>

Eaton Intermediate School District

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds **\$ 3,905,385**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 6,199,215	
Accumulated depreciation is	<u>(2,263,295)</u>	
		3,935,920

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and loans payable	(2,326,360)	
Accrued interest payable	(71,709)	
Accumulated compensated absences	<u>(532,807)</u>	
		<u>(2,930,876)</u>

Net assets of governmental activities **\$ 4,910,429**

See accompanying notes to financial statements.

Eaton Intermediate School District

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	General	Special Education	Vocational Education
REVENUES			
Local sources	\$ 1,031,033	\$ 7,097,994	\$ 2,676,753
State sources	1,007,760	4,780,682	357,358
Federal sources	880,750	4,499,579	1,799,135
TOTAL REVENUES	2,919,543	16,378,255	4,833,246
EXPENDITURES			
Current			
Instruction	1,224,223	3,017,428	2,323,217
Supporting services	2,309,508	12,203,597	1,164,423
Community service	204,354	87,740	1,574,256
Debt service	-	-	-
Capital outlay	-	1,304	-
TOTAL EXPENDITURES	3,738,085	15,310,069	5,061,896
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(818,542)	1,068,186	(228,650)
OTHER FINANCING SOURCES (USES)			
Other transactions	1,148,922	1,679,232	510,600
Transfers from other funds	-	56,119	-
Bond proceeds	-	-	-
Payments to other districts and other	(63,153)	(2,551,307)	(173,331)
Transfers to other funds	(186,463)	(159,803)	-
TOTAL OTHER FINANCING SOURCES (USES)	899,306	(975,759)	337,269
NET CHANGE IN FUND BALANCES	80,764	92,427	108,619
Fund balances, beginning of year	936,503	1,234,542	562,693
Fund balances, end of year	\$ 1,017,267	\$ 1,326,969	\$ 671,312

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Totals Governmental Funds
\$ 32,973	\$ 10,838,753
-	6,145,800
-	7,179,464
32,973	24,164,017
-	6,564,868
3,500	15,681,028
-	1,866,350
190,147	190,147
36,876	38,180
230,523	24,340,573
(197,550)	(176,556)
-	3,338,754
290,147	346,266
250,000	250,000
-	(2,787,791)
-	(346,266)
540,147	800,963
342,597	624,407
547,240	3,280,978
\$ 889,837	\$ 3,905,385

Eaton Intermediate School District

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds **\$ 624,407**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	160,103	
Depreciation expense		<u>(213,211)</u>	
Excess of depreciation expense over capital outlay			(53,108)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	105,000		
Bond and loan proceeds		<u>(250,000)</u>	
Excess of bond proceeds over principal retirement			(145,000)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These amounts consist of:

(Increase) in accrued interest payable	(10,990)		
Decrease in accrued compensated absences		<u>62,083</u>	
			<u>51,093</u>

Change in net assets of governmental activities **\$ 477,392**

See accompanying notes to financial statements.

Eaton Intermediate School District

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Agency Fund	Private Purpose Trust Fund
ASSETS		
Cash and cash equivalents	<u>\$ 26</u>	<u>\$ 1,341</u>
LIABILITIES		
Due to student groups	<u>\$ 26</u>	<u>-</u>
NET ASSETS		
Held in trust for private purposes		<u>\$ 1,341</u>

See accompanying notes to financial statements.

Eaton Intermediate School District

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2007

	Private Purpose Trust Fund
ADDITIONS	
Contributions	
Private donations	\$ 5,183
DEDUCTIONS	
Community services	5,591
CHANGE IN NET ASSETS	(408)
Net assets - beginning of year	1,749
Net assets - end of year	<u>\$ 1,341</u>

See accompanying notes to financial statements.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Eaton Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Eaton Intermediate School District (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included. Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to record its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. Separate columns are shown for major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major funds of the District are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided from all sources including local extra voted millage for the operation of special education programs and/or the distribution of funds to other local education agencies for operating special education programs.
- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other sources provided from all sources including local extra voted millage for the operation of vocational technical education programs. The Vocational Education fund also is used to account for Federal and State revenues received to operate job-training programs.

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the last one approved June 27, 2007.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts, pooled investment funds, and imprest cash. Cash equivalents are recorded at market value.

6. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant and local programs and State Aid payments. The State of Michigan's funding stream resulted in two (2) payments related to the fiscal year ended June 30, 2007 being paid in July and August 2006. The total amount of \$3,556,712 due from other governmental units consists of \$788,703 and \$2,768,009 related to State Aid and grant and local programs, respectively.

7. Prepays

Prepays, which are expected to benefit future periods, are included as assets in both the District-wide and Fund financial statements. Reported prepaid expenditures are equally offset in the governmental fund balance sheet by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

8. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of a house constructed by students and expendable supplies held for consumption or use in the various educational programs conducted by the District (i.e., Vocational Education). Reported inventories are equally offset by a fund balance reserve in the fund financial statements, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Computer equipment, classroom and office modules, electronic equipment over \$1,000, and all other purchases with an initial individual cost of \$5,000 and an estimated useful life of more than one year are recorded as Capital assets. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. Purchased assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 45 years
Equipment and furniture	5 - 20 years
Vehicles	8 years

The District has no assets that would be classified as infrastructure assets.

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested sick and vacation pay amounts and non-vested sick and vacation pay amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes in the district-wide financial statements. The total is allocated between short and long-term based on management's determination of the amount that will be paid in the short-term and the remaining was recorded as long-term.

Vested vacation amounts scheduled to be paid from expendable available resources are recorded along with the related payroll taxes as a liability in the applicable governmental funds.

11. Deferred Revenues

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue until the period in which eligible expenditures are incurred.

12. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005, May 15, 2007, and a portion of May 15, 2008 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2009.

13. Long-Term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Long-Term Obligations - continued

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity. The District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The District is permitted by the Constitution of the State of Michigan of 1963 to levy taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Special Education, Vocational Education, and Debt Service Fund expenditures. For the year ended June 30, 2007, the District levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	.1849
Special Education Fund	2.7788
Vocational Education Fund	.9259

15. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the preparation of the District-wide financial statements.

16. Comparative Data

Comparative data for the prior year has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

17. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

2. Certificates of deposit issued by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each.

Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2007, the carrying amount of the District's deposits was \$(305,492) and the bank balance was \$431,879 of which \$102,278 was covered by Federal depository insurance. The balance of \$329,601 was uninsured and uncollateralized. The district had \$750 imprest cash on hand. The negative carrying amount of the District's deposits is due to outstanding checks not being allocated against other pooled assets.

Investments

As of June 30, 2007, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents caption in the financial statements are as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
LaSalle Bank - Fimm Funds			
Government Portfolio	\$ 3,693,026	\$ 3,693,026	N/A

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

<u>Investment Type - continued</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds - continued			
LaSalle Bank - AIS			
Repurchase Agreements	\$ 328,545	\$ 328,545	N/A
	<u>\$ 4,021,571</u>	<u>\$ 4,021,571</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the District's investments in the Fimm Funds Government Portfolio were rated AAAM by Standard and Poor's.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the weighted average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy and pre-qualifying the investment institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

As of June 30, 2007, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents caption in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,715,462	\$ 1,367	\$ 3,716,829

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: CAPITAL ASSETS - CONTINUED

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 23,500	\$ -	\$ -	\$ 23,500
Capital assets being depreciated				
Buildings and additions	5,106,051	-	-	5,106,051
Equipment and furniture	959,307	147,195	(100,004)	1,006,498
Vehicles	<u>50,258</u>	<u>12,908</u>	<u>-</u>	<u>63,166</u>
Subtotal	6,115,616	160,103	(100,004)	6,175,715
Less accumulated depreciation for:				
Buildings and additions	(1,481,908)	(89,587)	-	(1,571,495)
Equipment and furniture	(636,780)	(115,284)	98,184	(653,880)
Vehicles	<u>(31,400)</u>	<u>(6,520)</u>	<u>-</u>	<u>(37,920)</u>
Subtotal	<u>(2,150,088)</u>	<u>(211,391)</u>	<u>98,184</u>	<u>(2,263,295)</u>
Net capital assets being depreciated	<u>3,965,528</u>	<u>(51,288)</u>	<u>(1,820)</u>	<u>3,912,420</u>
Capital assets, net	<u>\$ 3,989,028</u>	<u>\$(51,288)</u>	<u>\$(1,820)</u>	<u>\$ 3,935,920</u>

The current year depreciation expense of \$211,391 has been adjusted by \$1,820 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense of \$213,211 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2007.

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Amounts Due Within One Year</u>
1998 Durant Resolution Bonds	\$ 331,360	\$ -	\$ -	\$ 331,360	\$ -
1999 School Building and Site Bonds	1,850,000	-	105,000	1,745,000	110,000
2007 Energy Conservation Bonds	-	250,000	-	250,000	20,000
Accumulated compensated absences	<u>594,890</u>	<u>865,483</u>	<u>927,566</u>	<u>532,807</u>	<u>137,539</u>
	<u>\$ 2,776,250</u>	<u>\$ 1,115,483</u>	<u>\$ 1,032,566</u>	<u>\$ 2,859,167</u>	<u>\$ 267,539</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

General Obligation Bonds

\$2,465,000 School Building and Site General Obligation Bonds dated March 1, 1999, due in annual installments ranging from \$110,000 to \$185,000 through May 1, 2019, with interest ranging from 4.25 to 4.85 percent, payable semi-annually.

\$ 1,745,000

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: LONG-TERM DEBT - CONTINUED

Resolution Bonds

\$561,188 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments from \$29,812 to \$129,803, with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds are paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009. \$ 331,360

Energy Conservation Bonds

\$250,000 Energy Conservation Improvement Bonds dated June 1, 2007, due in annual installments ranging from \$20,000 to \$30,000, through May 1, 2017, with interest of 4.30 percent, payable semi-annually. 250,000
\$ 2,326,360

Accumulated Compensated Absences

In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

A summary of the calculated amounts of accrued sick pay and related payroll taxes as of June 30, 2007, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Sick pay	\$ 182,710	\$ 252,969	\$ 435,679
Payroll taxes	<u>13,977</u>	<u>19,352</u>	<u>33,329</u>
	<u>\$ 196,687</u>	<u>\$ 272,321</u>	<u>\$ 469,008</u>

A summary of the calculated amounts of accrued vacation pay and related payroll taxes as of June 30, 2007, which has been recorded in the district-wide financial statements, is as follows:

	<u>Total</u>
Vacation pay	\$ 59,265
Payroll taxes	<u>4,534</u>
	<u>\$ 63,799</u>

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the long-term debt is as follows:

Year Ending June 30,	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ -	\$ -	\$ 110,000	\$ 80,438
2009	190,847	73,934	115,000	75,763
2010	32,717	6,690	125,000	70,818
2011	34,276	5,133	130,000	65,318
2012	35,905	3,501	135,000	59,598
2013-2017	37,615	1,791	770,000	199,553
2018-2019	-	-	360,000	26,433
	<u>\$ 331,360</u>	<u>\$ 91,049</u>	<u>\$ 1,745,000</u>	<u>\$ 577,921</u>

Year Ending June 30,	<u>Energy Conservation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 20,000	\$ 9,854
2009	20,000	9,890
2010	20,000	9,030
2011	25,000	8,170
2012	25,000	7,095
2013-2017	<u>140,000</u>	<u>18,705</u>
	<u>\$ 250,000</u>	<u>\$ 62,744</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation. The State of Michigan has suspended payments on these bonds until May 15, 2009. It appears this suspension will have no financial impact on Eaton Intermediate School District in the future.

NOTE E: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2006, the last year available, may be obtained by contacting the State of Michigan Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2007 was \$11,015,000 of which \$8,099,740 was for members who have elected the MIP option; the District's total payroll was \$11,560,841.

Eaton Intermediate School District

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987 to December 31, 1989 and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated range; 3% of the first \$5,000; 3.6% or \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2006 to September 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. For the period of October 1, 2006 to June 30, 2007, the District is required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2007 and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2007	\$ 311,175	\$ 1,920,042	\$ 2,231,217
2006	295,559	1,703,433	1,998,992
2005	302,819	1,614,653	1,917,472

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2007	4.0%	17.4%
2006	4.0	16.0
2005	4.0	14.5

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 130,344
Special Education Fund	<u>159,803</u>
	290,147
Transfers to Special Education Fund from:	
General Fund	<u>56,119</u>
	<u>\$ 346,266</u>

NOTE G: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance in the Fund financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance in the Fund financial statements indicates that portion of fund balance which the District has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2007:

General Fund	
Reserved for inventories	\$ 42,520
Special Education Fund	
Reserved for prepaids	38
Vocational Education Fund	
Reserved for inventories	534,554
Nonmajor governmental funds	
Reserved for debt service	<u>9,510</u>
	<u>\$ 586,622</u>

The following are the fund balance designations as of June 30, 2007:

Nonmajor governmental funds	
Designated for capital expenditures	<u>\$ 858,088</u>

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

As shown in the Budgetary Comparison Schedules, which are included in the financial statements as Required Supplementary Information, the District's budgeted expenditures in the governmental funds have been adopted and shown at the functional classification level.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Instruction			
Basic programs	\$ 1,217,968	\$ 1,224,223	\$ 6,255
Supporting services			
Instructional staff	1,213,471	1,229,719	16,248
General administration	297,407	298,478	1,071
School administration	85,696	86,257	561
Other financing uses			
Transfers to other funds	173,347	186,463	13,116
Special Education Fund			
Supporting services			
School administration	185,318	185,353	35
Pupil transportation	2,530,535	2,534,127	3,592
Operation and maintenance	413,623	413,753	130
Other	2,400	2,965	565
Vocational Education Fund			
Community services	1,570,436	1,574,256	3,820

NOTE I: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, data processing, valuable papers and records, outdoor sign, boiler, and employee dishonesty. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

NOTE J: FLEXIBLE BENEFITS PLAN

In September 1991, for all administrative employees and in March 1996 for all bargaining unit employees, the District implemented flexible benefit cafeteria plans established under Section 125 of the Internal Revenue Code. The plans are available to all employees who are either collective bargaining unit employees or administrative employees.

The bargaining unit employee's plan permits employees, who must pay a portion of the health insurance, to do so through a pretax compensation reduction. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses. If the employee waives health insurance coverage from the District they may receive a cash benefit in lieu of such health insurance.

Eaton Intermediate School District
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J: FLEXIBLE BENEFITS PLAN - CONTINUED

The administrative employee's plan allows for an employer provided payment to the plan for each employee, which can be used for medical or dependent care expenses. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses.

The plans are administered by Eaton Intermediate School District.

NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past under funding of special education. Eaton Intermediate School District, a nonplaintiff District, was awarded \$1,122,375 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

REQUIRED SUPPLEMENTARY INFORMATION

Eaton Intermediate School District

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 827,436	\$ 1,033,657	\$ 1,031,033	\$ (2,624)
State sources	729,698	984,826	1,007,760	22,934
Federal sources	863,612	982,936	880,750	(102,186)
TOTAL REVENUES	2,420,746	3,001,419	2,919,543	(81,876)
EXPENDITURES				
Current				
Instruction				
Basic programs	1,110,599	1,217,968	1,224,223	(6,255)
Supporting services				
Pupil	216,811	270,973	233,733	37,240
Instructional staff	1,074,850	1,213,471	1,229,719	(16,248)
General administration	294,387	297,407	298,478	(1,071)
School administration	140,362	85,696	86,257	(561)
Business	70,616	63,042	59,678	3,364
Pupil transportation	472	419	290	129
Central	340,805	362,273	337,025	25,248
Operation and maintenance	73,053	70,929	64,328	6,601
Total supporting services	2,211,356	2,364,210	2,309,508	54,702
Community services	-	254,734	204,354	50,380
TOTAL EXPENDITURES	3,321,955	3,836,912	3,738,085	98,827
EXCESS OF REVENUES (UNDER) EXPENDITURES	(901,209)	(835,493)	(818,542)	16,951
OTHER FINANCING SOURCES (USES)				
Payments from other districts	1,054,751	1,141,405	1,148,922	7,517
Payments to other districts and other	(50,487)	(69,110)	(63,153)	5,957
Transfers to other funds	(87,449)	(173,347)	(186,463)	(13,116)
TOTAL OTHER FINANCING SOURCES (USES)	916,815	898,948	899,306	358
NET CHANGE IN FUND BALANCE	15,606	63,455	80,764	17,309
Fund balance, beginning of year	936,503	936,503	936,503	-0-
Fund balance, end of year	\$ 952,109	\$ 999,958	\$ 1,017,267	\$ 17,309

Eaton Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Local sources	\$ 6,868,268	\$ 7,043,526	\$ 7,097,994	\$ 54,468
State sources	4,232,853	4,739,784	4,780,682	40,898
Federal sources	4,838,013	4,737,184	4,499,579	(237,605)
TOTAL REVENUES	15,939,134	16,520,494	16,378,255	(142,239)
EXPENDITURES				
Current				
Instruction				
Added needs	2,971,537	3,047,018	3,017,428	29,590
Supporting services				
Pupil	6,928,623	6,714,723	6,584,233	130,490
Instructional staff	832,605	774,697	760,555	14,142
General administration	20,321	22,713	21,974	739
School administration	182,952	185,318	185,353	(35)
Business	359,056	332,121	325,224	6,897
Pupil transportation	2,525,674	2,530,535	2,534,127	(3,592)
Central	1,577,500	1,470,490	1,375,413	95,077
Operation and maintenance	407,932	413,623	413,753	(130)
Other	2,400	2,400	2,965	(565)
Total supporting services	12,837,063	12,446,620	12,203,597	243,023
Community services	73,685	90,089	87,740	2,349
Capital outlay	1,750	1,750	1,304	446
TOTAL EXPENDITURES	15,884,035	15,585,477	15,310,069	275,408
EXCESS OF REVENUES OVER EXPENDITURES	55,099	935,017	1,068,186	133,169

Eaton Intermediate School District

Special Education Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Other transactions	\$ 1,708,178	\$ 1,696,386	\$ 1,679,232	\$ (17,154)
Transfers from other funds	56,119	56,119	56,119	-0-
Payments to other districts and other	(1,992,752)	(2,624,395)	(2,551,307)	73,088
Transfers to other funds	(163,174)	(159,803)	(159,803)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	(391,629)	(1,031,693)	(975,759)	55,934
NET CHANGE IN FUND BALANCE	(336,530)	(96,676)	92,427	189,103
Fund balance, beginning of year	1,234,542	1,234,542	1,234,542	-0-
Fund balance, end of year	<u>\$ 898,012</u>	<u>\$ 1,137,866</u>	<u>\$ 1,326,969</u>	<u>\$ 189,103</u>

Eaton Intermediate School District

Vocational Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,895,173	\$ 2,617,529	\$ 2,676,753	\$ 59,224
State sources	364,612	358,102	357,358	(744)
Federal sources	1,808,622	1,815,190	1,799,135	(16,055)
TOTAL REVENUES	5,068,407	4,790,821	4,833,246	42,425
EXPENDITURES				
Current				
Instruction				
Added needs	2,557,078	2,331,967	2,323,217	8,750
Supporting services				
Pupil	605,354	491,230	486,004	5,226
Instructional staff	262,597	222,713	196,074	26,639
General administration	4,190	4,500	4,340	160
School administration	248,100	238,986	232,935	6,051
Business	100,292	106,268	105,816	452
Pupil transportation	506	3,829	326	3,503
Central Services	67,210	69,954	66,033	3,921
Operation and maintenance	79,433	84,263	70,436	13,827
Other	2,500	2,500	2,459	41
Total supporting services	1,370,182	1,224,243	1,164,423	59,820
Community services	1,554,218	1,570,436	1,574,256	(3,820)
TOTAL EXPENDITURES	5,481,478	5,126,646	5,061,896	64,750
EXCESS OF REVENUES (UNDER) EXPENDITURES	(413,071)	(335,825)	(228,650)	107,175
OTHER FINANCING USES				
Other transactions	600,000	510,600	510,600	-0-
Payments to other districts and other	(175,522)	(173,428)	(173,331)	97
TOTAL OTHER FINANCING SOURCES (USES)	424,478	337,172	337,269	97
NET CHANGE IN FUND BALANCE	11,407	1,347	108,619	107,272
Fund balance, beginning of year	562,693	562,693	562,693	-0-
Fund balance, end of year	\$ 574,100	\$ 564,040	\$ 671,312	\$ 107,272

OTHER SUPPLEMENTARY INFORMATION

Eaton Intermediate School District

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2007

	Special Revenue		Capital
	SAPE Fund	Debt Service Fund	General Capital Projects
ASSETS			
Cash and cash equivalents	\$ 22,259	\$ 9,510	\$ 496,255
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 20	\$ -	\$ 1,597
FUND BALANCES			
Reserved for debt service	-	9,510	-
Unreserved			
Designated for capital expenditures	-	-	494,658
Undesignated, reported in special revenue funds	22,239	-	-
TOTAL FUND BALANCES	22,239	9,510	494,658
TOTAL LIABILITIES AND FUND BALANCES	\$ 22,259	\$ 9,510	\$ 496,255

Project Funds		
Special Education Capital Projects	Vocational Education Capital Projects	Total
<u>\$ 333,911</u>	<u>\$ 30,694</u>	<u>\$ 892,629</u>
\$ 1,175	\$ -	\$ 2,792
-	-	9,510
332,736	30,694	858,088
-	-	22,239
<u>332,736</u>	<u>30,694</u>	<u>889,837</u>
<u>\$ 333,911</u>	<u>\$ 30,694</u>	<u>\$ 892,629</u>

Eaton Intermediate School District

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue		Capital
	SAPE Fund	Debt Service Fund	General Capital Projects
REVENUES			
Local sources	\$ 2,717	\$ 525	\$ 9,274
EXPENDITURES			
Current			
Supporting services			
Instructional staff	3,500	-	-
Debt service			
Principal retirement	-	105,000	-
Interest and fiscal charges	-	85,147	-
Capital outlay	-	-	24,444
TOTAL EXPENDITURES	3,500	190,147	24,444
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(783)	(189,622)	(15,170)
OTHER FINANCING SOURCES			
Bond proceeds	-	-	250,000
Transfers from other funds	-	190,147	100,000
TOTAL OTHER FINANCING SOURCES	-0-	190,147	350,000
NET CHANGE IN FUND BALANCES	(783)	525	334,830
Fund balances, beginning of year	23,022	8,985	159,828
Fund balances, end of year	\$ 22,239	\$ 9,510	\$ 494,658

Project Funds		
Special Education Capital Projects	Vocational Education Capital Projects	Total
\$ 18,158	\$ 2,299	\$ 32,973
-	-	3,500
-	-	105,000
-	-	85,147
12,432	-	36,876
12,432	-0-	230,523
5,726	2,299	(197,550)
-	-	250,000
-	-	290,147
-0-	-0-	540,147
5,726	2,299	342,597
327,010	28,395	547,240
\$ 332,736	\$ 30,694	\$ 889,837

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**REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2007, which collectively comprise Eaton Intermediate School District's basic financial statements and have issued our report thereon dated October 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Eaton Intermediate School District financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Eaton Intermediate School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

2007-1 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for activities in the General Fund, the Special Education Fund, and the Vocational Education Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: Having an unfavorable budget variance as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District is currently reviewing procedures in this area to ensure that appropriate budget amendments are made in a timely manner.

The District's response to the finding identified in our audit is described above. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the administration, the Board of Education of Eaton Intermediate School District, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 2, 2007

Eaton Intermediate School District

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2007

Eaton Intermediate School District

TABLE OF CONTENTS

June 30, 2007

	<u>Page</u>
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-12
Notes to Schedule of Expenditures of Federal Awards	13-14
Schedule of Federal Awards Provided to Subrecipients	15-16
Schedule of Budgeted, Reported and Audited Amounts - Prevention	17-18
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	19-20
SCHEDULE OF FINDINGS	21-22
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	23

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education
of Eaton Intermediate School District
Charlotte, Michigan

Compliance

We have audited the compliance of Eaton Intermediate School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Eaton Intermediate School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major Federal programs is the responsibility of Eaton Intermediate School District's management. Our responsibility is to express an opinion on Eaton Intermediate School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Eaton Intermediate School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Eaton Intermediate School District's compliance with those requirements.

In our opinion, Eaton Intermediate School District complied, in all material respects, with the requirements referred to above that are applicable to its major Federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Eaton Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Eaton Intermediate School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Eaton Intermediate School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2007, and have issued our report thereon dated October 2, 2007. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Eaton Intermediate School District's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Eaton Intermediate School District, others within the District, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 2, 2007

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND</u>			
U.S. Department of Education			
Direct Assistance			
Rural Education Achievement Program	84.358A		
2005-06		S358A056231	\$ 28,099
2006-07		S358A066231	29,423
			<hr/>
			57,522
Passed Through State Department of Education			
Title V Part A Regular	84.298		
2006-07 Regular		0702500607	177
U.S. Department of Health and Human Services			
Direct Assistance			
Drug Free Communities Support Program	93.276	1 H79 SP13791-01	100,000
Passed through Michigan Department of Community Health, Bureau of Substance Abuse Services, and Mid-South Substance Abuse Commission Prevention Program (c)(f)			
	93.959		
2005-06 Eaton Methamphetamine		230005	2,802
2006-07 Eaton Methamphetamine		230005	10,421
2006-07 Eaton		230005	152,468
2005-06 Eaton		230005	136,195
2005-06 Ingham Methamphetamine		230005	4,583
2006-07 Ingham Methamphetamine		230005	8,704
2006-07 Ingham		230005	139,632
2005-06 Ingham		230005	134,700
			<hr/>
			589,505
Passed through State Department of Community Health			
Michigan Abstinence Partnership	93.235		
2006-07		20072087	170,000
2005-06		20060690	170,000
			<hr/>
			340,000

	Balance July 1, 2006			Balance June 30, 2007
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ 15,856	\$ 15,856	\$ 28,099	\$ 12,243	\$ -0-
-	-	-	14,571	14,571
15,856	15,856	28,099	26,814	14,571
-	-	-	177	177
-	-	-	60,864	60,864
1,679	(1,123)	-	1,123	-0-
-	-	10,421	10,421	-0-
-	-	85,535	116,387	30,852
69,887	(36,593)	29,715	66,308	-0-
2,950	(1,633)	-	1,633	-0-
-	-	8,704	8,704	-0-
-	-	86,547	117,769	31,222
90,628	(44,072)	-	44,072	-0-
165,144	(83,421)	220,922	366,417	62,074
-	-	89,074	124,912	35,838
118,586	13,362	64,776	51,414	-0-
118,586	13,362	153,850	176,326	35,838

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND - CONTINUED</u>			
Corporation for National & Community Service Passed Through Michigan Community Service Commission			
2007 Learn & Serve	94.004	MCSC/SBLS/ F-139/07	\$ 30,000
2006 Learn & Serve		MCSC/ISDLS/ F-12/06	<u>50,000</u>
			80,000
U.S. Department of Education Passed through State Department of Education			
Drug Free Programs	84.186		
2006-07		0728600506	189,044
2006-07		0628600607	67,882
2005-06 Regular		0628600506	241,698
2005-06 Regular		0528600506	<u>86,708</u>
			585,332
Passed through State Department of Education and Central Michigan University			
Title II Part B Math/Science	84.366	052410-MSPF2004	18,046
Passed through State Department of Education			
Title II Part A Teacher Training	84.367		
2006-07 Regular		0705200607	369
U.S. Department of Health and Human Services Passed through Eaton County			
2005/06 Strong Families/Safe Children	93.556	2381712860	<u>5,096</u>
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			1,776,047
<u>SPECIAL EDUCATION FUND</u>			
U.S. Department of Education Passed through State Department of Education			
Special Education 94-142 (d)	84.027		
Flow Through			
2005-07 Regular		0604500506	2,775,612
2006-07 ISD		0704702D16	1,262,500
2005-07 ISD		050470RC2D16	1,009,911

Restated (Memo Only) Prior Years' Expenditures	Balance July 1, 2006 Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2007 Accrued or (Deferred) Revenue
\$ -	\$ -	\$ -	\$ 12,937	\$ 12,937
24,686	17,745	23,263	25,314	19,796
24,686	17,745	23,263	38,251	32,733
-	-	88,620	121,770	33,150
-	-	28,489	67,882	39,393
173,817	35,164	35,164	-	-0-
86,708	5,745	5,745	-	-0-
260,525	40,909	158,018	189,652	72,543
12,060	12,060	12,060	-	-0-
-	-	-	369	369
5,096	2,345	2,345	-	-0-
601,953	18,856	598,557	858,870	279,169
2,158,574	598,012	1,210,849	617,038	4,201
-	-	450,656	733,114	282,458
740,752	172,723	441,882	269,159	-0-

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education			
Passed through State Department of Education - continued			
Special Education 94-142 (d)	84.027		
Transition Services			
2006-07		0704500607	\$ 2,802,536
2006-07		0704400607	4,000
2005-06 State Initiated		060490TS	70,000
2006-07		070490TS	70,000
2006-07		070480EOSD	<u>50,000</u>
			8,044,559
Special Education 94-142 (d)	84.173		
Preschool Incentive			
2006-07 Regular		0704600607	102,872
Infant/Toddler Early Intervention	84.181		
2005-06 Regular		061340190	128,686
2006-07 Regular		071340190	<u>129,523</u>
			258,209
Passed through State Department of Education and Grand Valley State University			
Flow Through (d)	84.027		
2006-07		N/A	36,650
U.S. Department of Health and Human Services			
Passed through State Family Independence Agency			
Medicaid Assistance Program			
Title XIX	93.778		
School Based Services (Transportation) (b)			
2006-07		2981894	8,964
Outreach			
2006-07		2981894	<u>255,238</u>
			<u>264,202</u>
TOTAL SPECIAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			8,706,492

	Balance July 1, 2006			Balance June 30, 2007
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ -	\$ -	\$ 1,052,945	\$ 1,911,266	\$ 858,321
-	-	-	1,128	1,128
70,000	3,632	3,632	-	-0-
-	-	58,377	70,000	11,623
-	-	50,000	50,000	-0-
2,969,326	774,367	3,268,341	3,651,705	1,157,731
-	-	102,872	102,872	-0-
128,686	9,626	9,626	-	-0-
-	-	86,600	129,523	42,923
128,686	9,626	96,226	129,523	42,923
-0-	-0-	36,650	36,650	-0-
-	-	8,964	8,964	-0-
-	(185,364)	69,874	230,124	(25,114)
-0-	(185,364)	78,838	239,088	(25,114)
3,098,012	598,629	3,582,927	4,159,838	1,175,540

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>VOCATIONAL EDUCATION FUND</u>			
U.S. Department of Labor			
Passed through Michigan Department of Career Development and Capital Area Michigan Works			
WIA Adult Program (c)(g)	17.258		
2005-06 Ingham		5133	\$ 90,089
2005-06 Eaton		5131	334,565
2006-07 Eaton		6131	360,945
2006-07 Ingham		6133	<u>92,351</u>
			877,950
WIA Youth Activities (c)(g)	17.259		
2006-07		6134	170,691
2005-06		5134	<u>171,822</u>
			342,513
WIA Dislocated Workers (c)(g)	17.260		
2006-07		6136	386,222
2005-06		5136	<u>393,099</u>
			779,321
WIA Statewide Programs (c)(g)	17.258-17.260		
2006-07		5133-5136	13,827
Employment Service	17.207		
PY05 Employment Services		5135ES	60,480
PY06 Interns		6135ES	69,479
PY05 Interns		5135ES	9,000
2005-06 RES		5135ES	<u>5,216</u>
			144,175

	Balance July 1, 2006			Balance June 30, 2007
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ 90,089	\$ 6,455	\$ 6,455	\$ -	\$ -0-
334,565	60,730	60,730	-	-0-
-	-	274,510	347,402	72,892
-	-	79,003	84,257	5,254
424,654	67,185	420,698	431,659	78,146
-	-	151,124	170,691	19,567
166,273	36,249	36,249	-	-0-
166,273	36,249	187,373	170,691	19,567
-	-	315,374	377,686	62,312
386,347	67,473	67,473	-	-0-
386,347	67,473	382,847	377,686	62,312
-	-	13,827	13,827	-0-
60,479	1,048	1,048	-	-0-
-	-	67,630	68,972	1,342
8,762	2,010	2,010	-	-0-
5,216	562	562	-	-0-
74,457	3,620	71,250	68,972	1,342

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>VOCATIONAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Health and Human Services Passed through Michigan Department of Career Development and Capital Area Michigan Works WorkFirst Program (c) Temporary Assistance for Needy Families	93.558		
2006/07		7137	\$ 475,934
2005/06		6137	488,885
			<u>964,819</u>
U.S. Department of Education Passed through State Department of Education and Lansing Community College Vocational Education (SLICE)	84.243		
2005-06 Tech-Prep Education		TP4748	28,070
2006-07 Tech-Prep Education		TP4748	3,000
			<u>31,070</u>
Passed through State Department of Education and Clinton County Regional Education Service Agency Vocational Education	84.048		
2005-06 Regional Allocation		23000	111,939
2006-07 Regional Allocation		23000	109,304
			<u>221,243</u>
U.S. Department of Agriculture Passed through State Family Independence Agency and Capital Area Michigan Works State Match Program for Food Stamps	10.561		
FY07		7132	108,138
FY06		6132	106,126
			<u>214,264</u>
TOTAL VOCATIONAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			<u>3,589,182</u>
TOTAL FEDERAL AWARDS			<u>\$ 14,071,721</u>

	Balance July 1, 2006			Balance June 30, 2007
Restated (Memo Only) Prior Years' Expenditures	Restated Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Accrued or (Deferred) Revenue
\$ -	\$ -	\$ 342,822	\$ 385,237	\$ 42,415
332,794	45,363	167,003	121,640	-0-
332,794	45,363	509,825	506,877	42,415
28,070	27,870	27,870	-	-0-
-	-	3,000	3,000	-0-
28,070	27,870	30,870	3,000	-0-
111,939	37,699	37,699	-	-0-
-	-	69,373	109,304	39,931
111,939	37,699	107,072	109,304	39,931
-	-	60,909	72,902	11,993
68,341	8,386	46,171	37,785	-0-
68,341	8,386	107,080	110,687	11,993
1,592,875	293,845	1,830,842	1,792,703	255,706
\$ 5,292,840	\$ 911,330	\$ 6,012,326	\$ 6,811,411	\$ 1,710,415
		(e)	(a)	

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2007

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of Eaton Intermediate School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (g) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports except as noted below. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) Denotes program tested as "major program".
- (d) Denotes programs required to be clustered by the United States Department of Education.
- (e) The amounts reported in this schedule as cash received are in agreement with the amounts in the Grants Section Auditor's Report.
- (f) Reported amounts represent the portion of the grant which is considered Federal. The Federal participation of this program is 75% for FY 05-06 grants and 80% for FY 06-07 grants.
- (g) Denotes programs required to be clustered by the United States Department of Labor.

Eaton Intermediate School District

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

June 30, 2007

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the Federal revenues reported in the June 30, 2007 Financial Statements to the expenditures of the District administered Federal programs reported on the Schedule of Expenditures of Federal Awards:

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Vocational Education Fund</u>
Revenues from Federal sources per financial statements.	\$ 880,750	\$ 4,499,579	\$ 1,799,135
<u>Less:</u> Medical services portion of the Medicaid School Based Services program which is not subject to the Single Audit Act	-	(339,741)	-
<u>Less:</u> Portion of Federal grants considered State and Local funds	<u>(21,880)</u>	<u>-</u>	<u>(6,432)</u>
Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 858,870</u>	<u>\$ 4,159,838</u>	<u>\$ 1,792,703</u>

Eaton Intermediate School District

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Year Ended June 30, 2007

Program Title/ Subrecipient (School District)	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	(Memo Only) Prior Years' Expenditures
Drug-Free Program				
2006-07 Regular	84.186			
Holt Public Schools		0728600506	\$ 3,580	\$ -
Learn & Serve Program				
2007 Program	94.004	MCSC/SBLS/ F-139/07	8,925	-
Clinton County RESA				
2006 Program		MCSC/ISDLS/ F-12/06	22,550	-
Clinton County RESA				
			<u>31,475</u>	<u>-0-</u>
TOTAL GENERAL FUND			<u>\$ 35,055</u>	<u>\$ -0-</u>
Special Education 94-142				
Flow Through				
2006-07 Regular	84.027			
Charlotte Public Schools		0704500607	\$ 75,000	\$ -
Eaton Rapids Public Schools		0704500607	75,000	-
Potterville Public Schools		0704500607	25,000	-
Grand Ledge Public Schools		0704500607	75,000	-
Maple Valley Schools		0704500607	50,000	-
			<u>300,000</u>	<u>-0-</u>
Start Grant				
2006-07 Regular				
Ingham ISD		0704500607	9,806	-
Least Restrictive Environment				
2006-07 Regular	84.027			
Charlotte Public Schools		0704500607	3,783	-
Eaton Rapids Public Schools		0704500607	4,425	-
Potterville Public Schools		0704500607	3,940	-
Grand Ledge Public Schools		0704500607	8,016	-
Maple Valley Schools		0704500607	4,015	-
			<u>24,179</u>	<u>-0-</u>
TOTAL SPECIAL EDUCATION FUND			<u>\$ 333,985</u>	<u>\$ -0-</u>

Balance July 1, 2006		Cash Transferred to Subrecipient	Subrecipient Expenditures	Balance June 30, 2007
Due From/(To) Subrecipient				Due From/(To) Subrecipient
\$ -	\$ 3,580	\$ 3,580	\$ -0-	
-	8,925	8,925	-0-	
-	22,550	22,550	-0-	
-0-	31,475	31,475	-0-	
\$ -0-	\$ 35,055	\$ 35,055	\$ -0-	
\$ -	\$ 75,000	\$ 75,000	\$ -0-	
-	75,000	75,000	-0-	
-	25,000	25,000	-0-	
-	75,000	75,000	-0-	
-	50,000	50,000	-0-	
-0-	300,000	300,000	-0-	
-	9,806	9,806	-0-	
-	3,783	3,783	-0-	
-	4,425	4,425	-0-	
-	3,940	3,940	-0-	
-	8,016	8,016	-0-	
-	4,015	4,015	-0-	
-0-	24,179	24,179	-0-	
\$ -0-	\$ 333,985	\$ 333,985	\$ -0-	

Eaton Intermediate School District

SCHEDULE OF BUDGETED, REPORTED, AND COMPILED AMOUNTS - PREVENTION

MDCH/BSAS GRANTS

For the Program Year Ended September 30, 2006

	<u>Eaton Grant</u>			Variance Between Reported and Compiled
	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	
Expenditures				
Salaries and wages	\$ 115,204	\$ 116,065	\$ 116,065	\$ -0-
Fringe benefits	49,585	48,321	48,321	-0-
Travel	1,000	1,148	1,148	-0-
Supplies and materials	765	930	930	-0-
Other	10,880	11,296	11,296	-0-
Indirect	<u>3,833</u>	<u>3,833</u>	<u>3,833</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ 181,267</u>	<u>\$ 181,593</u>	<u>\$ 181,593</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 181,267</u>	<u>\$ 181,593</u>	<u>\$ 181,593</u>	<u>\$ -0-</u>

	<u>Eaton Methamphetamine Grant</u>			Variance Between Reported and Compiled
	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	
Expenditures				
Salaries and wages	\$ 2,093	\$ 2,144	\$ 2,144	\$ -0-
Fringe benefits	1,031	991	991	-0-
Travel	90	90	90	-0-
Supplies and materials	222	211	211	-0-
Other	221	221	221	-0-
Indirect	<u>79</u>	<u>79</u>	<u>79</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ 3,736</u>	<u>\$ 3,736</u>	<u>\$ 3,736</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 3,736</u>	<u>\$ 3,736</u>	<u>\$ 3,736</u>	<u>\$ -0-</u>

Eaton Intermediate School District

SCHEDULE OF BUDGETED, REPORTED, AND COMPILED AMOUNTS - PREVENTION

MDCH/BSAS GRANTS

For the Program Year Ended September 30, 2006

Ingham Grant

	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	<u>Variance Between Reported and Compiled</u>
Expenditures				
Salaries and wages	\$ 112,217	\$ 112,804	\$ 112,804	\$ -0-
Fringe benefits	46,149	46,027	46,027	-0-
Travel	2,693	2,344	2,344	-0-
Supplies and materials	3,600	3,060	3,060	-0-
Other	11,144	11,568	11,568	-0-
Indirect	<u>3,797</u>	<u>3,797</u>	<u>3,797</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ 179,600</u>	<u>\$ 179,600</u>	<u>\$ 179,600</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 179,600</u>	<u>\$ 179,600</u>	<u>\$ 179,600</u>	<u>\$ -0-</u>

Ingham Methamphetamine Grant

	<u>Final Budget</u>	<u>Reported</u>	<u>Compiled</u>	<u>Variance Between Reported and Compiled</u>
Expenditures				
Salaries and wages	\$ 3,656	\$ 3,731	\$ 3,731	\$ -0-
Fringe benefits	1,827	1,752	1,752	-0-
Travel	67	57	57	-0-
Supplies and materials	69	79	79	-0-
Other	362	362	362	-0-
Indirect	<u>129</u>	<u>129</u>	<u>129</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>\$ 6,110</u>	<u>\$ 6,110</u>	<u>\$ 6,110</u>	<u>\$ -0-</u>
Funding sources				
MDCH/BSAS	<u>\$ 6,110</u>	<u>\$ 6,110</u>	<u>\$ 6,110</u>	<u>\$ -0-</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

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**REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Eaton Intermediate School District
Charlotte, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eaton Intermediate School District as of and for the year ended June 30, 2007, which collectively comprise Eaton Intermediate School District's basic financial statements and have issued our report thereon dated October 2, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Eaton Intermediate School District financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Eaton Intermediate School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings as Finding 2007-1.

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the administration, the Board of Education of Eaton Intermediate School District, others within the District, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney, P.C." in a cursive, flowing script.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 2, 2007

Eaton Intermediate School District

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
17.258, 17.259, 17.260	WIA Cluster
93.558	Temporary Assistance to Needy Families
93.959	Substance Abuse Prevention Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

2007-1 Unfavorable Budget Variances

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for activities in the General Fund, the Special Education Fund, and the Vocational Education Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Eaton Intermediate School District

SCHEDULE OF FINDINGS

Year Ended June 30, 2007

Section II - Financial Statement Findings - continued

2007-1 Unfavorable Budget Variances – continued

Effect: Having an unfavorable budget variance as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District is currently reviewing procedures in this area to ensure that appropriate budget amendments are made in a timely manner.

Section III - Federal Award Findings and Questioned Costs

None

Eaton Intermediate School District

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2007

There were no findings disclosed for the year ended June 30, 2006. That report also contained one (1) compliance finding from the year ended June 30, 2005 that was reported as resolved.